

# Main Economic & Financial Indicators Turkey

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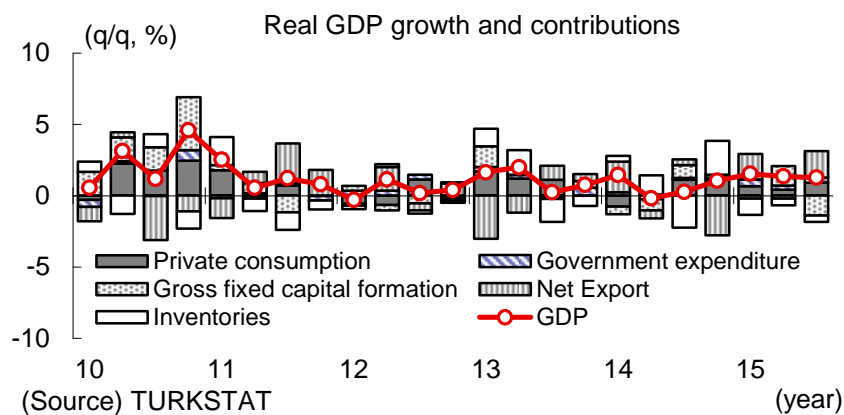
## Overview

Since mid-2015, uncertainty surrounding the political situation has weighed down economic activities, but due to the Justice and Development Party (AKP) recovering their majority at the re-election on 1<sup>st</sup> November, the domestic political situation has regained a degree of stability. As a result, there was a noticeable improvement in confidence amongst consumers and the manufacturing sector. However, in light of the worsening relations between Russia and Turkey owing to a Russian military aircraft being shot down at the end of November, as well as lira depreciation due to heightened expectations of a rate hike by the US Federal Reserve Bank (Fed), it is possible that the improvement in confidence is temporary. A rise in import prices due to lira depreciation has led to the inflation rate returning to an upward trend and is also expected to push down consumption. In addition, the recovery of the European economy remains at a gradual pace, which means it is difficult to expect a strong, positive contribution from exports since Turkey's major export destinations are located within this area. In light of these circumstances, the lack of growth momentum is expected to continue.

Russia announced economic sanctions against Turkey, which includes prohibiting the importation of food (including fruit, vegetables and meat) from Turkey, an end to Russian tour operators selling trips to Turkey, suspension of its visa-free travel agreement and a restriction on Turkish companies' business activities within Russia. The ratio of all Turkish exports to Russia is only 3.8% (2014) – 20% of which are food products - which means the damage to Turkey due to the ban on some food imports is regarded as limited. Meanwhile, Turkey relies on Russia for over 50% of its natural gas supply, but Russia has not imposed sanctions on gas exports to Turkey at this point. This is because Turkey ranks as the second largest export destination of Russian natural gas so sanctions on the energy sector would be a large blow to them both. Provided that relations between the two countries do not worsen further, it is unlikely that sanctions will be imposed on the energy sector. On the other hand, the sector which is expected to suffer damage to some extent is the tourism industry. In 2014, Russian tourists made up 12% of the total number of tourists to Turkey, second only to Germany. The European Bank of Reconstruction and Development's preliminary calculations revealed that if all Russian sanctions are issued, it would push down the GDP forecast for 2016 by 0.3% - 0.7%, mostly through revenue losses in the tourism industry. It is thought that the negative effect of the sanctions on the economy will become more visible especially during summertime, which has the highest concentration of tourists.

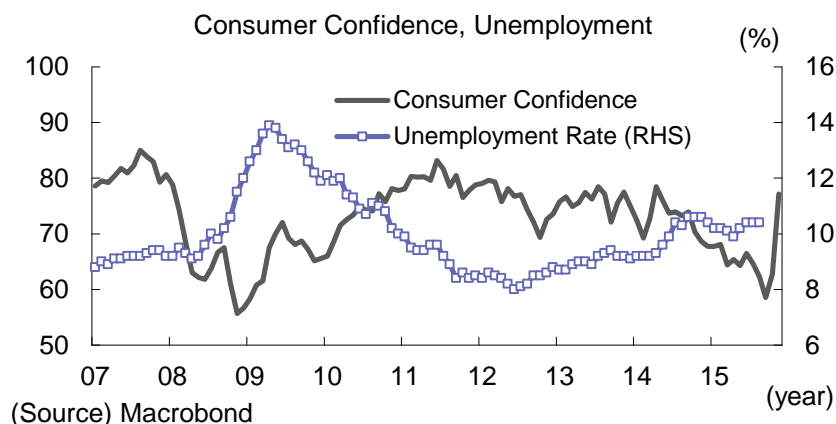
## GDP

While the real GDP growth rate for Q3 has maintained its strong growth – 1.3% q/q – it has decelerated from 1.4% q/q in Q2. A breakdown of this figure reveals that the private consumption growth pace accelerated from 0.6% q/q in Q2 to 1.4% q/q in Q3. By the end of summer, inflation pressure eased slightly, especially from food prices, which is thought to have boosted private consumption. The main cause of the downward pressure was the significant fall in gross fixed capital formation, which dropped to -5.8% q/q, due to a rebound from the strong growth of 5.8% q/q in Q2. While exports grew after a decrease in the previous quarter, a significant decline in imports (-5.1% q/q) due to a slowdown of domestic demand and low oil prices means that the contribution of net exports turned positive, boosting overall growth.



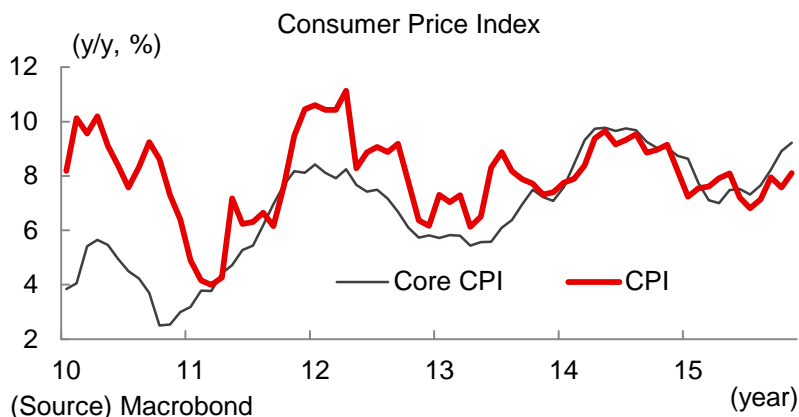
## Labour Market, Consumer Confidence

Since June, the employment rate remained high at 10.4%. The Consumer Confidence Index fell significantly since mid-2015 due to political uncertainty after the June election and terrorist attacks within Turkey. However, the feeling of relief due to the result of the re-elections in November meant the Consumer Confidence Index rose to a level not seen for a year and a half. Nevertheless, in light of the current worsening of Turkish and Russian relations and the resurgence of inflation, the downside risk of consumer sentiment is thought to be large.



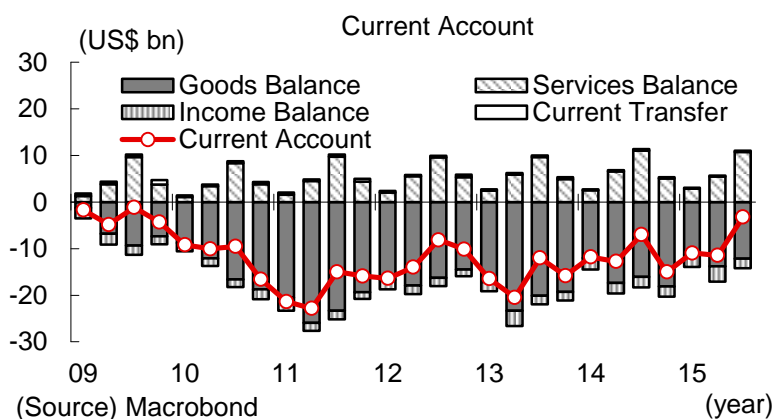
## Prices

Consumer prices rose by 6.8% y/y in July, the lowest level in two years. However, upward inflationary pressure rose again from August due to a rise in import prices reflecting lira depreciation; the inflation rate in November was 8.1% y/y. At the end of October, the Central Bank of the Republic of Turkey (CBRT) revised its inflation forecast for the end of 2015 upwards from its July forecast of 6.9% y/y to 7.9% y/y. It also raised its end-2016 inflation forecast to 6.5% y/y from 5.5% y/y. Against a backdrop of heightened geopolitical risks and expectations of a rate hike by the US Fed, the lira currently stands at above US\$2.9, near record low, which means the inflation rate is likely to remain at an elevated level in near term.



## Balance of Payment

The current account deficit in the period from January to September decreased by US\$6 billion since the same period last year to total US\$25.56 billion. The breakdown of this figure reveals that the goods trade deficit decreased from US\$45.5 billion last year to US\$37.2 billion this year owing to a decrease in imports as a result of the deceleration in domestic demand and lower crude oil prices. This decrease of the goods trade deficit contributed to the reduction of the current account deficit. However, the current account deficit for 2015 as a whole is forecast to remain at a high level: approximately US\$35 billion (roughly 5% of GDP).



## Main Economic & Financial Indicators: Turkey

### 1. Annual and quarterly data

		2012	2013	2014	14/Q3	Q4	15/Q1	Q2	Q3
GDP (at current prices)	(US\$ bn)	786.6	822.1	798.4	213.7	197.1	180.4	180.8	181.6
Real GDP growth	(%, q/q)	2.1	822.1	798.4	0.3	1.0	1.5	1.4	1.3
	(%, y/y)	0.0	4.2	2.9	1.8	2.6	2.6	3.8	5.4
(Private consumption)	(%, q/q)	-0.5	0.0	0.0	1.7	1.7	1.0	0.6	1.4
	(%, y/y)	0.0	5.1	1.4	0.1	2.9	4.5	5.5	4.4
(Gross fixed capital formation)	(%, q/q)	-2.7	0.0	0.0	3.8	0.8	-0.9	5.8	-5.8
	(%, y/y)	0.0	4.4	-1.3	-0.4	-1.0	0.4	9.7	-0.5
Industrial production	(%, y/y)	2.4	3.5	3.5	3.5	1.8	1.3	3.8	3.4
Consumer confidence index		75.6	76.0	72.5	73.7	68.9	66.7	65.4	61.8
Retail Sales	(%, y/y)	5.2	4.1	3.9	1.7	3.1	3.3	4.0	3.5
Bank credits to the private sector	(%, y/y)	18.5	33.3	19.3	20.5	19.3	22.8	25.0	24.9
Consumer price index	(%, y/y)	8.9	7.5	8.9	9.2	8.8	7.5	7.7	7.3
Gross Wages growth	(%, y/y)	15.7	14.4	15.6	15.5	14.5	13.8	13.9	14.1
Unemployment rate	(%)	8.4	9.1	9.9	10.4	10.5	10.2	10.2	-
Trade balance	(US\$ mn)	-84,083	-99,859	-84,567	-21,720	-23,129	-15,256	-18,053	-15,796
Exports	(US\$ mn)	152,462	151,803	157,610	38,315	39,228	37,058	36,390	33,768
Export growth	(%, y/y)	13.0	-0.4	3.8	2.9	-0.5	-7.7	-8.9	-11.9
Imports	(US\$ mn)	236,545	251,661	242,177	60,035	62,357	52,314	54,443	49,564
Import growth	(%, y/y)	-1.8	6.4	-3.8	-2.8	-2.6	-9.0	-12.6	-17.4
Current account	(US\$ mn)	-48,535	-64,658	-46,523	-6,972	-15,007	-10,898	-11,468	-2,912
Capital and financial balances	(US\$ mn)	-71,126	-72,817	-42,812	-5,652	-17,140	-2,410	-5,583	-183
Foreign direct investment	(US\$ mn)	13,282	12,457	12,749	2,530	3,220	3,602	2,835	6,167
Foreign reserves	(US\$ mn)	99,943	110,927	106,906	111,395	106,906	101,223	100,761	101,079
External debt	(US\$ mn)	339,042	389,146	402,720	397,781	402,720	393,135	405,223	-
Stock price index		63,729	78,004	75,217	79,336	80,767	84,989	83,186	76,952
Interbank overnight borrowing rate		8.24	6.42	10.22	8.96	10.69	10.95	11.12	11.32
TRY/USD		1.80	1.91	2.19	2.16	2.26	2.47	2.67	2.86
TRY/Euro		2.31	2.53	2.91	2.87	2.83	2.77	2.95	3.18
TRY/GBP		2.85	2.98	3.60	3.61	3.58	3.73	4.09	4.42

### 2. Monthly data

		15/04	5	6	7	8	9	10	11
Industrial production	(%, y/y)	4.0	2.4	4.9	0.3	7.2	2.8	4.7	-
Consumer confidence index		65.4	64.3	66.4	64.7	62.4	58.5	62.8	77.1
Retail Sales	(%, y/y)	3.8	4.6	3.7	7.2	3.6	-0.2	0.8	1.8
Bank credits to the private sector	(%, y/y)	25.3	25.6	25.0	26.3	27.3	24.9	24.1	-
Consumer price index	(%, y/y)	7.9	8.1	7.2	6.8	7.1	8.0	7.6	8.1
Unemployment rate	(%)	9.9	10.2	10.4	10.4	10.4	-	-	-
Trade balance	(US\$ mn)	-5,023	-6,787	-6,243	-7,077	-4,917	-3,802	-3,621	-
Exports	(US\$ mn)	13,351	11,082	11,957	11,136	11,033	11,600	13,290	-
Export growth	(%, y/y)	-0.1	-19.0	-7.2	-16.6	-3.1	-14.6	3.1	-
Imports	(US\$ mn)	18,374	17,869	18,200	18,213	15,950	15,402	16,911	-
Import growth	(%, y/y)	-11.1	-14.4	-12.5	-8.7	-18.2	-25.2	-11.9	-
Stock price index		83,302	85,038	81,476	80,769	76,254	73,313	78,601	80,318
Interbank overnight borrowing rate		11.00	11.12	11.22	11.28	11.30	11.39	11.30	11.28
TRY/USD		2.66	2.65	2.70	2.70	2.85	3.02	2.93	2.88
TRY/Euro		2.87	2.95	3.03	2.97	3.18	3.38	3.29	3.08
TRY/GBP		3.97	4.08	4.21	4.20	4.44	4.63	4.49	4.37

TRY: Turkish New Lira

Source: Central Bank of the Republic of Turkey, Turkish Statistic Office etc.

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